

Wednesday, November 22, 2017

FX Themes/Strategy/Trading Ideas

- The USD weakened across G10 on waning rate support (note continued **inversion behavior** with 10y UST yield slipping but the 2y inching higher). Meanwhile, neutral to accommodative comments from the Fed's Yellen late Tuesday also failed to impart any positive impetus for the greenback. **Overall, the DXY still slipped despite underlying rate differential support (note softening global yields in other major markets) with investors likely focusing more on nominal yield levels instead.**
- EUR continued to underperform its peers while the cyclicals gained some altitude across the board on the back of a supportive commodity complex and positive EZ/US/EM equities. **Heading into today's session, we continue to expect the greenback to remain on the defensive with little positive impetus expected out of the FOMC minutes while positive risk appetite levels may also continue to detract from the dollar.**
- For today, look to the releases of FOMC minutes (1900 GMT) while the ECB's Villeroy (0800 GMT and 1230 GMT) is also scheduled to speak. The UK budget announcement at 1230 GMT is also expected to be closely watched. The data calendar meanwhile includes October durable goods orders (1330 GMT) and November Michigan consumer sentiment (1500 GMT).
- With geopolitical risks under containment and little fallout detected across broader EM space, the fairly sanguine net portfolio inflow environment prevailing in Asia coupled with our expectation for an unsteady USD gait in the near term we think leaves space for the **USD-SGD** potentially test lower. As such, we initiate a tactical short USD-SGD recommendation on Tuesday (spot ref: 1.3561) targeting 1.3415 with a stop placed at 1.3640.

Asian FX

- EM FX also climbed against the greenback on Tuesday with the **FXSI (FX Sentiment Index)** striding further into Risk-On territory with EM risk premiums also continuing to compress. This is expected to continue to weigh on the **ACI (Asian Currency Index)**, which is currently at year-to-date lows. Structurally, the ACI has weakened -5.28% in the year to date, lagging the Fed's major currency dollar index at -7.11%. **Going ahead, it remains to be seen if the Asian complex can make up for lost time, especially with net implied structural inflows continuing to moderate since 2Q 17.**
- On the net portfolio inflow front in Asia, inflow momentum for the KRW

Treasury Research &
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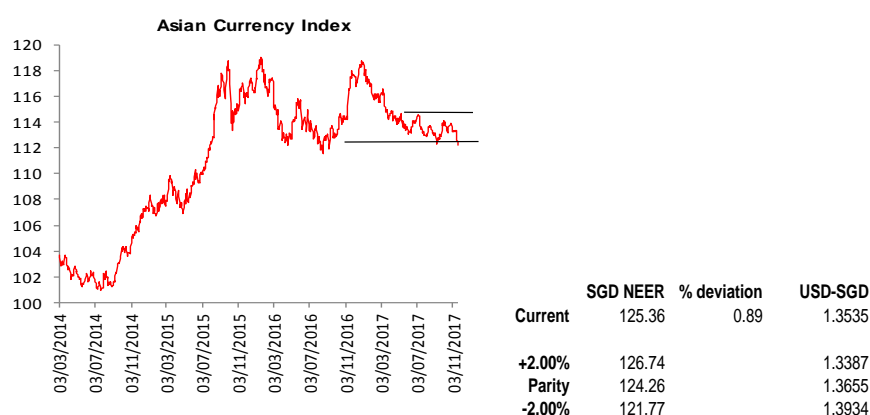
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

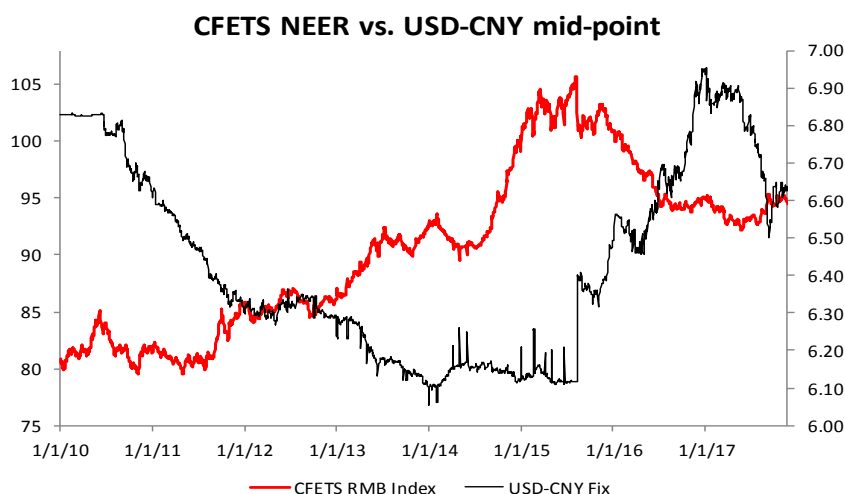
continues to moderate (a potential caveat to recent significant outperformance) with the TWD and IDR witnessing a compression in net outflow momentum. Net inflow momentum for the INR remains positive and improving (largely on the back of equities) while the net balance for the THB has flipped to a net inflow on a 1M rolling basis. Overall, the near term environment remains constructive for the Asian units.

- SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.89% above its perceived parity (1.3655) with NEER-implied USD-SGD thresholds softer on the day. The +1.00% threshold (1.3522) should cushion on initial dips in the USD-SGD ahead of +1.10% (1.3507) with the +0.80% estimated at 1.3547. Technically, the 55-day MA (1.3563) is expected to cap with risks tilted towards 1.3519 instead.



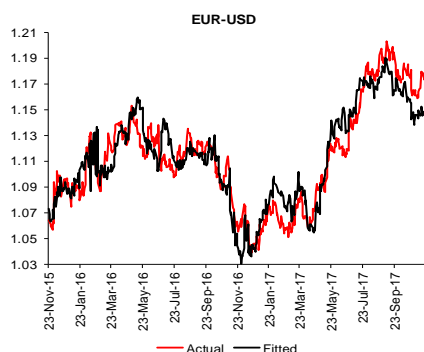
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (less than expected) to 6.6290 from 6.6356 on Tuesday. This kept the CFETS RMB Index in check as it softened to 94.50 from 94.58 yesterday.



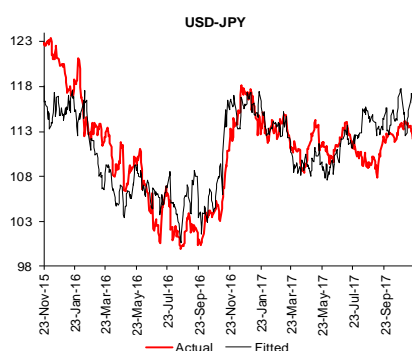
Source: OCBC Bank, Bloomberg

G7



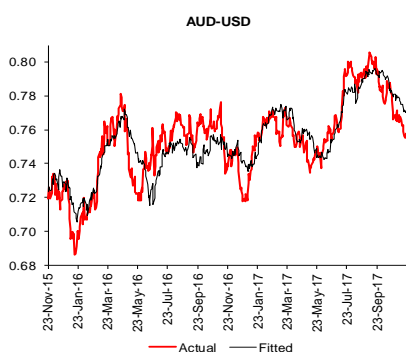
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are attempting to stabilize but the overhang from German political concerns may impede the EUR despite a vulnerable greenback. Nevertheless, collect into dips within 1.1680-1.1800 with the 100-day MA (1.1756) and the 55-day MA (1.1783) potential roadblock on the top side.



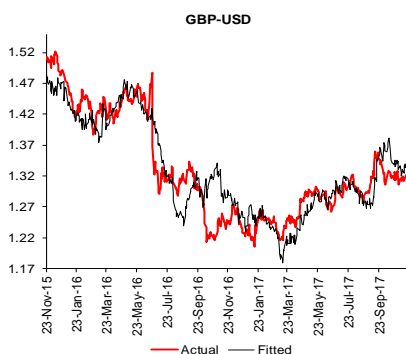
Source: OCBC Bank

- **USD-JPY** Supported short term implied valuations and improving risk appetite notwithstanding, USD-JPY has continued to respond to the negative aura of softer US yields. In this environment, the 55-day MA (112.49) may be expected to limit, with the 200-day MA (11.74) still perceived to be a more attractive proposition.



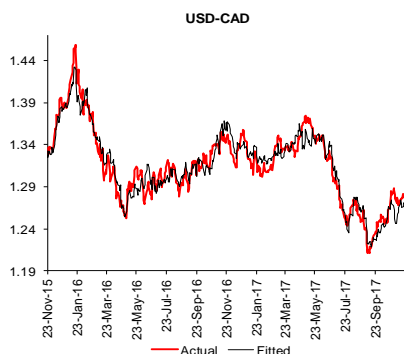
Source: OCBC Bank

- **AUD-USD** Despite generally "soft" RBA meeting minutes and subsequently accommodative comments from the RBA's Lowe, the AUD-USD managed to lift on a mixture of improving risk appetite and USD fragility on Tuesday. Going ahead, short term implied valuations for the pair remain on a negative gradient and the pair may run out of puff on approach of 0.7625 while the 100-week MA (0.7545) continues to tempt.



Source: OCBC Bank

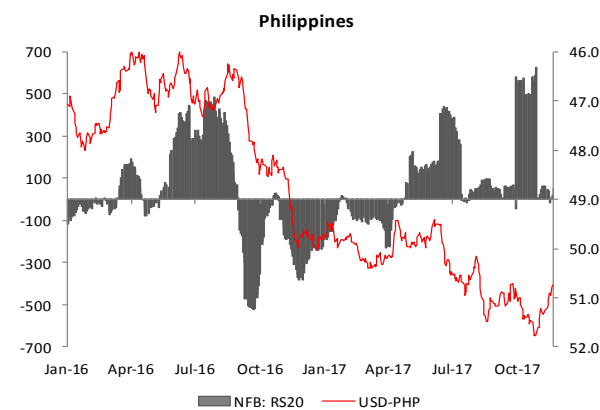
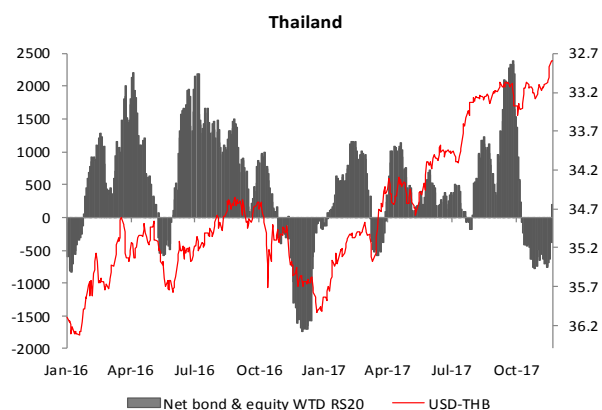
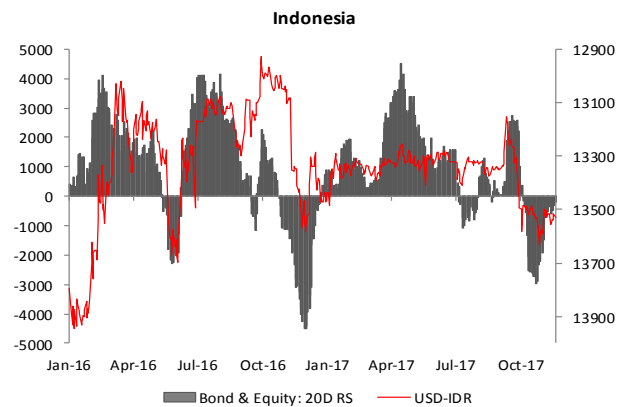
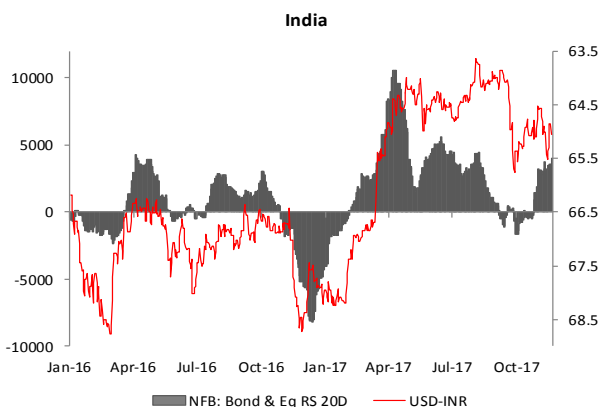
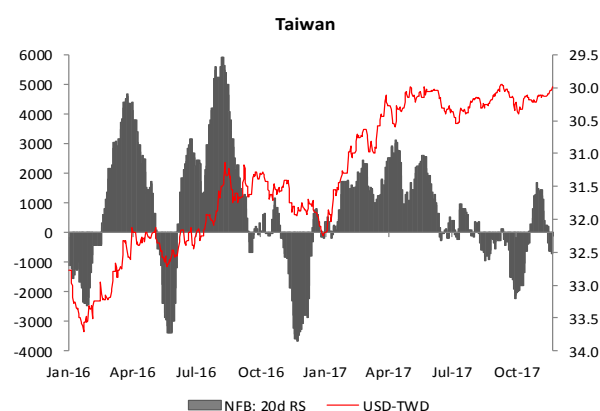
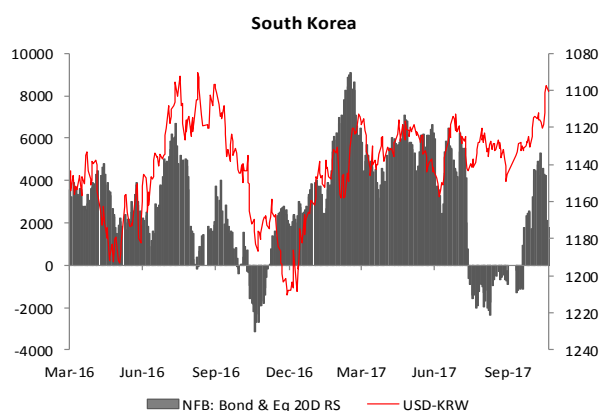
- **GBP-USD** Near term view remains unchanged ahead of the UK budget announcement today with the GBP-USD expected to hang in the vicinity of its (firming) 55-day MA (1.3252) within 1.3215-1.3265. Downside risks however remain apparent, with BOE testimony before Parliament on Tuesday resulting in muted rhetoric surrounding inflation prospects while UK Brexit minister Davis did not rule out a no-deal outcome. Short term implied valuations are also slightly heavy at this juncture and may limit excessive upside in the pound.

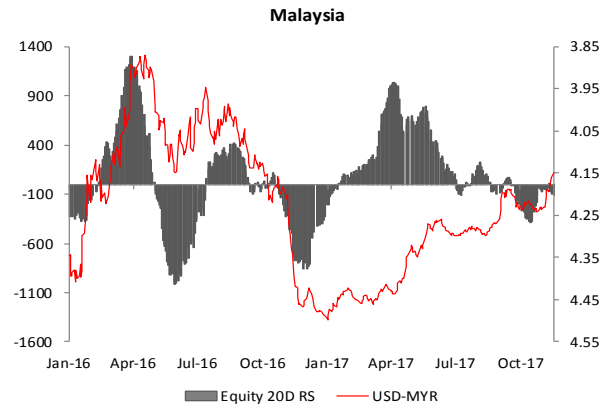


- USD-CAD** Although the USD-CAD consolidative lower on Tuesday (accompanied by firmer crude), note that short term implied valuations remain relatively underpinned with NAFTA uncertainty still in the air. In the interim, more range bound behavior within 1.2700-1.2845 can be expected.

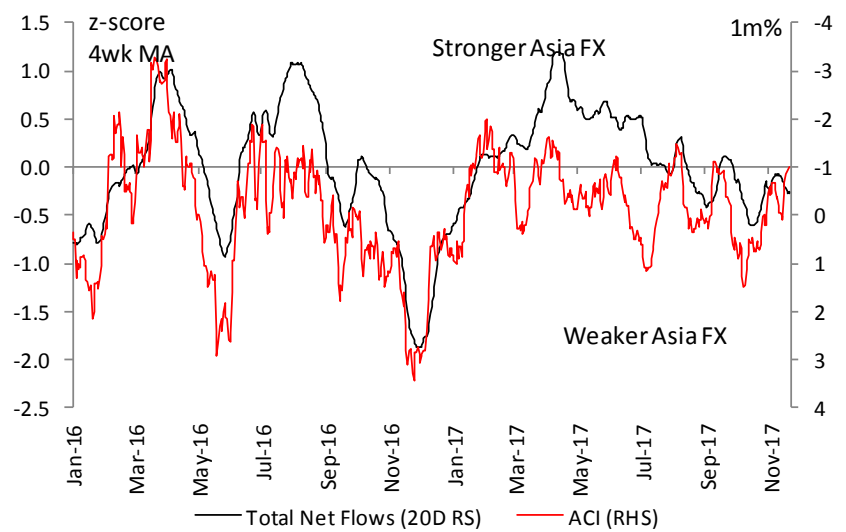
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

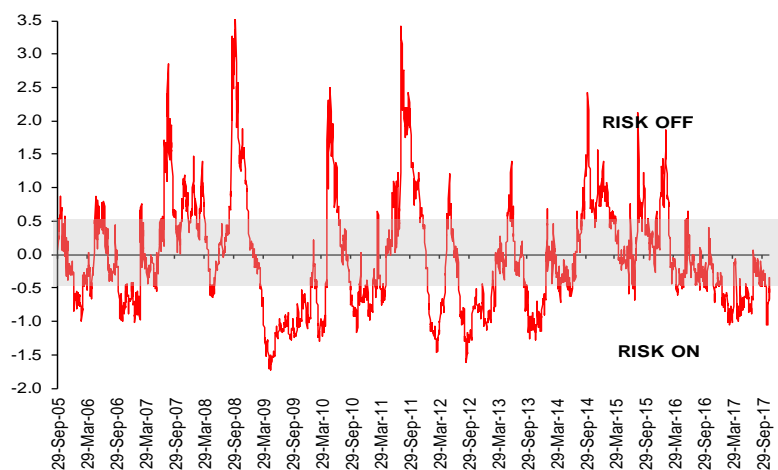




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.167	0.02	0.411	0.204	0.322	0.656	0.174	-0.703	-0.789	-0.063	-0.978
CHF	0.904	-0.078	-0.22	0.45	0.288	0.335	0.635	0.206	-0.634	-0.74	-0.166	-0.87
JPY	0.656	0.216	-0.041	-0.095	-0.173	-0.121	1	-0.345	-0.371	-0.631	-0.041	-0.591
SGD	0.648	0.363	0.399	-0.217	-0.391	-0.221	0.818	-0.414	-0.338	-0.524	0.307	-0.609
MYR	0.584	0.203	0.145	-0.302	-0.501	-0.34	0.867	-0.538	-0.394	-0.691	-0.043	-0.531
THB	0.536	0.27	0.265	-0.34	-0.53	-0.272	0.811	-0.504	-0.226	-0.536	0.088	-0.482
NZD	0.372	-0.201	0.054	0.102	0.148	0.215	0.596	-0.006	-0.222	-0.302	0.021	-0.402
PHP	0.313	0.514	0.436	-0.564	-0.714	-0.519	0.674	-0.668	-0.12	-0.387	0.159	-0.281
CAD	0.282	0.18	-0.23	-0.14	-0.246	-0.277	0.041	-0.19	-0.18	-0.335	-0.307	-0.197
KRW	0.274	0.496	0.413	-0.575	-0.695	-0.508	0.701	-0.668	0.023	-0.205	0.285	-0.228
AUD	0.207	0.236	0.1	-0.371	-0.505	-0.437	0.659	-0.614	-0.206	-0.399	-0.062	-0.219
TWD	0.163	0.493	0.364	-0.545	-0.708	-0.514	0.653	-0.667	0.026	-0.193	0.195	-0.132
CCN12M	0.093	0.203	0.511	-0.032	0.11	0.269	0.123	0.166	0.167	0.257	0.686	-0.109
IDR	0.068	0.643	0.099	-0.481	-0.649	-0.613	0.143	-0.601	0.105	-0.033	-0.016	0.016
CNY	0.02	0.325	1	-0.117	-0.219	-0.053	-0.041	-0.074	0.006	0.184	0.811	-0.064
CNH	-0.063	0.463	0.811	-0.138	0.024	0.105	-0.041	0.029	0.312	0.474	1	0.009
USGG10	-0.167	1	0.325	-0.569	-0.598	-0.597	0.216	-0.641	0.301	0.271	0.463	0.197
GBP	-0.437	0.142	-0.026	-0.229	-0.158	-0.22	-0.488	-0.079	0.189	0.178	-0.077	0.382
INR	-0.509	0.188	0.331	-0.033	0.17	0.118	-0.382	0.162	0.689	0.808	0.554	0.502
EUR	-0.978	0.197	-0.064	-0.461	-0.248	-0.392	-0.591	-0.248	0.724	0.776	0.009	1

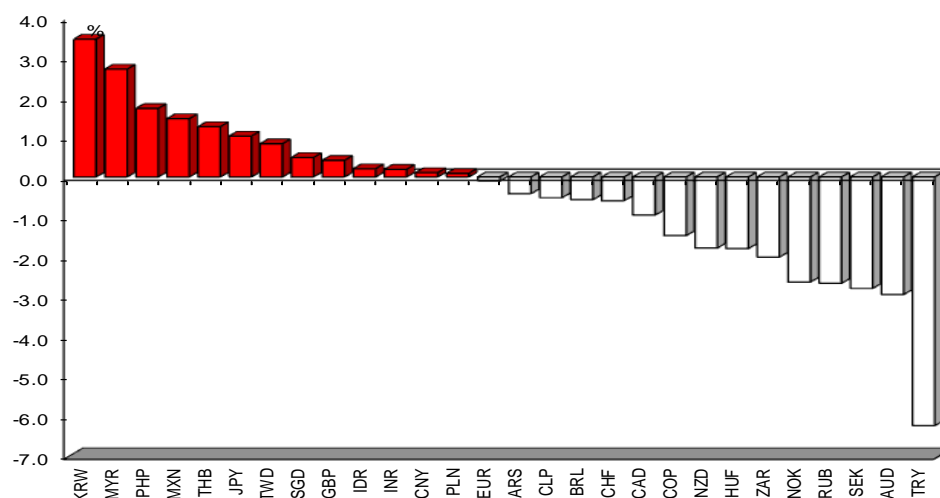
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1700	1.1737	1.1762	1.1800
GBP-USD	1.3200	1.3250	1.3253	1.3290	1.3300
AUD-USD	0.7532	0.7542	0.7577	0.7600	0.7693
NZD-USD	0.6785	0.6800	0.6839	0.6900	0.6968
USD-CAD	1.2659	1.2700	1.2768	1.2800	1.2885
USD-JPY	112.00	112.14	112.29	112.79	113.00
USD-SGD	1.3500	1.3525	1.3544	1.3567	1.3600
EUR-SGD	1.5768	1.5800	1.5897	1.5900	1.5958
JPY-SGD	1.2000	1.2029	1.2061	1.2075	1.2100
GBP-SGD	1.7766	1.7900	1.7949	1.7984	1.8000
AUD-SGD	1.0213	1.0215	1.0263	1.0300	1.0541
Gold	1265.90	1269.92	1280.40	1286.96	1290.99
Silver	16.65	16.90	16.94	17.00	17.03
Crude	53.45	57.60	57.64	57.70	58.25

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
	TACTICAL							
1	28-Sep-17	B	USD-CAD	1.2500	1.3095	1.2640	Reality check from the BOC's Poloz even as the USD garners renewed interest	
2	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
3	07-Nov-17	S	GBP-USD	1.3142	1.2835	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	
4	20-Nov-17	S	USD-JPY	112.07	109.80	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
5	21-Nov-17	S	USD-SGD	1.3561	1.3415	1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD	
	STRUCTURAL							
6	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
7	07-Nov-17		Bullish 2M 1X2 USD-JPY Call Spread Spot ref: 114.15; Strikes: 113.78, 118.31; Exp: 04/01/18; Cost: 0.90%				Rate differential complex supportive of the USD, BOJ static	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Aug-17	27-Oct-17		Bearish 2M 1X1.5 USD-SGD Put Spread Spot ref: 1.3519; Strikes: 1.3511, 1.3361; Exp: 27/10/17; Cost: 0.31%			Vulnerable USD, prevailing positivity towards carry, EM/Asia	-0.31**
2	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
3	21-Sep-17	15-Nov-17	B	USD-JPY	112.58	113.13	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	+0.73
4	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	-0.54
5	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
	Jan-Nov*** 2017 Return							-12.25
	2016 Return							+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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